

Report  
of the  
Examination of  
Wisconsin County Mutual Insurance Corporation  
Madison, Wisconsin  
As of December 31, 1998

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**Scott McCallum**, Governor  
**Connie L. O'Connell**, Commissioner

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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November 19, 1999

Honorable Connie L. O'Connell  
Commissioner of Insurance  
State of Wisconsin  
121 East Wilson Street  
Madison, WI 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs  
and financial condition of:

WISCONSIN COUNTY MUTUAL INSURANCE CORPORATION  
Madison, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of the company was conducted in 1994 as of December 31, 1993.  
The current examination covered the intervening period ending December 31, 1998, and included a  
review of such 1999 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and  
included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance

Financial Statements  
Accounts and Records  
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## II. HISTORY AND PLAN OF OPERATION

Wisconsin County Mutual Insurance Corporation ("WCMIC" or "the company") was organized by member counties and the Wisconsin Counties Association (WCA) in 1987 under ch. 611, Wis. Stat., as an assessable municipal mutual. In 1996, the Commissioner approved WCMIC's conversion to nonassessable status. In 1997, the company began offering excess workers' compensation insurance and in 1998, the company offered liability insurance to Wisconsin cities, villages, and towns. WCMIC's organizational requirements were relaxed by the Commissioner under s. 611.23, Wis. Stat., in order to facilitate WCMIC's formation, financing, and governance. Section 611.23, Wis. Stat., further exempts WCMIC from chs. 604 to 607, 612 to 619, 625, and 646, Wis. Stat.

The company provides member counties with liability insurance coverage with limits of \$5 million. WCMIC has a reinsurance treaty in force for 95% of \$4,750,000 excess of \$250,000 for each loss. For one of the counties the reinsurance treaty provides for \$5 million of limits over a \$1 million aggregate self-insured retention.

The company has divided its membership into seven districts. Current membership includes fifty-five out of the seventy-two Wisconsin counties, sixteen towns, and one city, which represent about 56% of Wisconsin's population. WCMIC is not authorized to write business in other states.

WCMIC offers liability insurance to counties, cities, villages, and towns and excess workers' compensation to counties.

The following table is a summary of the net insurance premium written by the company in 1998. The growth of the company is shown in the Financial Data section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Workers' Compensation	\$ 84,368	\$0	\$ 23,297	\$ 61,071
Other Liability	4,085,184	0	1,130,209	2,954,975
Auto Liability	<u>3,924,004</u>	<u>0</u>	<u>1,000,209</u>	<u>2,923,795</u>
Total All Lines	\$8,093,556	\$0	\$2,153,715	\$5,939,841

A prior three-year withdrawal provision was repealed in 1996. In order for members in good standing to leave, a six-month advance written notice is required. WCMIC may cancel a member's participation upon a two-thirds vote of the board of directors with sixty days' advance notice.

WCMIC offers one-year policies for any eligible Wisconsin county. Class A membership eligibility requirements for counties are as follows:

- The county is a member of Wisconsin Counties Association.
- The county board adopts a resolution that ratifies joining WCMIC.
- The member purchases insurance from WCMIC.
- The member contributes the required premium.
- The membership is approved by the board of directors

Class B membership is open to any municipality that meets the following conditions:

- The governing body adopts a resolution that ratifies joining WCMIC.
- The member purchases insurance from WCMIC.
- The member contributes the required premium.
- The membership is approved by the board of directors.

WCMIC has established a prefunded deductible escrow account for paying a county or municipality member's deductible portion of losses, funded with a percentage of premiums. The percentage used depends upon the deductible option selected. Paid loss deductibles are taken from the member's escrow and the member must replenish the escrow account annually. At year-end, the final adjustment is made and any balance is returned to the member. Since the balance is returned to the member, the deductible acts as an experience modification tool. One member's deductible experience does not affect other members. Per loss deductibles range from \$1,000 to \$1 million in the county liability program and from \$0 to \$250,000 in the municipal liability program.

Initially, WCMIC required members to make a capital deposit. The capital requirements were repealed in 1996. By the end of 1998, WCMIC repaid all capital deposits to the contributing members.

WCMIC adopted a broad coverage format which includes the following:

Automobile liability

- Bodily injury
- Property damage

General liability

- Bodily injury
- Property damage products/completed operations
- Contractual liability
- Broad form care, custody, and control
- Personal injury, including civil rights violations, and discrimination employment-related actions
- Professional services rendered by health, social services, EMT's, police, and fire Departments

Law enforcement liability

- False arrest/prosecution
- Civil rights violations

- Improper service
- Humiliation/mental anguish
- Assault and battery/use of force
- Jail operations liability

Public officials errors and omissions (occurrence basis)

Coverage provided for any act, error, or omission, subject to the following

exclusions:

- Bodily injury and personal injury
- Physical damage tangible property, including loss of use
- Willful violation of penal code/ordinance
- Back pay
- Excesses of probable costs or estimates related to the preparation of bid specifications
- Liability assumed contractually
- Pollution
- Principles of eminent domain, condemnation, or inverse condemnation
- Operation of gas or electric utilities

Excess workers' compensation is available for an additional fee.

Municipal Liability Program includes coverage for fire departments.

General policy exclusions

- Airports
- Nursing homes and mental health facilities
- Workers' compensation, disability benefits, or unemployment compensation
- Pollution
- Gas, electric, or nuclear energy generation facilities

### **III. MANAGEMENT AND CONTROL**

WCMIC has no employees. The company contracts with outside vendors to provide standard services. The services include corporate management, general administration, claims administration, auditing, actuarial, investments, and banking. The board strives to obtain services from vendors that provide high-quality services and employ well qualified individuals.

Since the company's inception, management services have been provided by WCA, the corporate manager. The contracted management services are as follows:

- Manage and oversee the company's service contracts.
  - Oversee the investment of the company's assets.
  - Provide services to member counties on behalf of the company.
  - Coordinate the meetings of the board of directors.
  - Arrange for legal and consulting services.
- Provide and oversee the marketing of the company in conjunction with the company's general administrator. Provide staff for the board of directors and issue communications to policyholders, pay expenses as required under the terms of any agreement approved by the board.
- Prepare periodic financial reports of the services provided to the company.
- Receipt and disbursement of funds, implement short-term and long-term strategic plans, prepare member funding and loss data, and legislative research and lobbying to WCA responsibilities.

WCA is compensated according to the following schedule:

- \$.32 per thousand dollars of ratable operating expenses for the County Liability Program.
- 2% of the standard workers' compensation rate for the Excess Workers' Compensation Program with services.
- Up to 2% of the standard workers compensation rate without services, based upon the premium and self-insured retention
- \$.50 per thousand dollars of ratable operating expenses for the Municipal Liability Program.

The contract is effective from January 1, 1997 through December 31, 2000, and may be opened at any time upon mutual agreement of both parties. Either party may terminate the contract upon ninety days written notice to the other party.

General administrative and loss control services are provided through an agreement with Aegis Corporation. Since 1992, the company has engaged Aegis to administer the business and affairs of the company and act as an agent for the company. Since the duties Aegis performs are consistent with what constitutes a Managing General Agent (MGA), Aegis has acquired an MGA license.

The current contract was effective on December 1, 1997 and will continue until December 31, 2001. Services provided include, but are not limited to: promoting the company, maintaining records and procedures, coordinating with other service providers for risk management, monthly accounting of all money expended, procuring reinsurance coverage, computing annual premiums and assessments, and providing actuarial support. Aegis also handles claims and litigation management, development and administration of the claims reporting system, and provides loss control services. Aegis is compensated for services according to the following schedule:

- \$.52 per thousand dollars of ratable operating expenses for the County Liability Program.
- 2% of the standard workers' compensation rate for the Excess Workers' Compensation Program.
- \$.75 per thousand dollars of ratable operating expenses for the Municipal Liability Program.

The table below depicts the ratio of Aegis and WCA fees to gross premiums written (GPW) and net premiums earned (NPE) from 1994 through 1999.

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999*</b>
<b>Aegis Fees</b>	\$ 598,406	\$ 543,219	\$ 558,852	\$ 874,732	\$ 919,602	\$ 957,956
<b>WCA Fees</b>	308,284	313,400	322,416	546,479	575,297	596,005
<b>GPW</b>	6,768,353	6,566,529	6,521,813	7,914,385	8,093,556	8,110,871
<b>NPE</b>	4,930,103	4,972,711	4,823,632	5,853,930	5,939,841	5,825,981
<b>GPW Aegis</b>	8.8%	8.3%	8.6%	11%	11.3%	11.8%
<b>GPW WCA</b>	4.5	4.8	4.9	7	7.1	7.3
<b>NPE Aegis</b>	12.1	10.9	11.6	15	15.5	16.4
<b>NPE WCA</b>	6.2	6.3	6.7	9.3	9.7	10.2

\*1999 amounts are estimates.

The fees are based on a percentage of premiums rather than the actual cost of services provided.

Further discussion regarding this matter can be found in the "Summary of Current Examination Results" section of this report.

Aegis also serves as a consultant to the board of directors, loss control, claims review, and underwriting committees. Aegis markets the County Liability Program, Excess Workers' Compensation Program and Municipal Liability Program. The company may terminate the contract without cause by

giving Aegis 120 days' prior written notice. Aegis may terminate the contract without cause by giving the company 180 days' prior written notice.

WCMIC has a contract with Crawford and Company (claims administrator) for claims investigation and adjustment services. For 1998, Crawford and Company was paid a flat rate of \$337 per claimant per type of claim. The contract is effective April 1, 1998, and will continue for three years. If the two parties become dissatisfied with the agreement, either party may cancel by giving the other party sixty days' written notice. Aegis coordinates the services of Crawford and Company.

In 1995, Aegis designed and implemented a claim reporting system for WCMIC. The system includes issuance of checks from the WCMIC checking account. WCMIC transfers funds into the checking account weekly to cover the checks written for claims. As a result, WCMIC no longer maintains a deposit account with Crawford and Company. Aegis is also responsible for conducting an audit of the claims administrator annually to determine compliance with the policies of WCMIC. The results of the annual claims audit and claims' administrator response are provided to the claims committee and the board of directors for WCMIC.

### **Board of Directors**

The board of directors consists of 19 members. Each director serves for a period of four years and the board determines the year in which the term of each director shall begin, so that the terms are staggered. Officers are elected at the annual meeting. The board members receive \$50 per diem for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Lawrence Scharine Delavan, Wisconsin	Retired	2002
Dorothy Dean Milwaukee, Wisconsin	Milwaukee County Supervisor	2002
Wilma Springer Appleton, Wisconsin	Retired	2002
Harold Reckelberg* Casco, Wisconsin	Farmer	2002

Patrick Brennand Oshkosh, Wisconsin	Insurance Agent	2002
Erhard Huettl* Wabeno, Wisconsin	Farmer	2002
Tony Lorbetske Rhinelander, Wisconsin	Retired	2002
Everett Carlson Gillett, Wisconsin	Insurance Agent	2002
Robert Sumnicht Merrill, Wisconsin	Forestry	2000
Gene Ahlborn Sayner, Wisconsin	Equipment Buyer	2000
John Shepard Superior, Wisconsin	Retired	2000
Gerald Handlos Balsam Lake, Wisconsin	Farmer	2000
Wayne Hendrickson Unity, Wisconsin	Farmer	2000
Howard Ludwigson Eau Claire, Wisconsin	Teacher	2000
James Barrett Camp Douglas, Wisconsin	Retired	2002
James Scholmeier* Fountain City, Wisconsin	Retired	2000
Robert Hoesly* New Glarus, Wisconsin	Farmer	2000
Wayne Wilson Argyle, Wisconsin	Field Service Representative	2000
Vincent Marchetti Necedah, Wisconsin	Retired	2002

\* Denotes directors also serving on the board of directors for Wisconsin Counties Association. Further comment on this subject is found in the "Current Examination Findings" section of the report.

### **Officers of the Company**

Officers are elected by the board of directors every third year at the organizational meeting.

The officers appointed by the board of directors and serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>
Erhard Huettl	President

Wayne Wilson  
Robert Hoesly  
Darla Hium

Vice President  
Secretary-Treasurer  
Assistant Secretary

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

#### **Investment Committee**

Robert Hoesly, Chair\*  
Lawrence Sharine\*  
Wendell Wilson  
Erhard Huettl\*  
Fred Clary  
Tony Lorbetske\*  
Dale Southard  
Dean Abbott  
Yvonne Feavel

#### **Underwriting Committee**

Robert Sumnicht, Chair\*  
Patrick Brennand\*  
Betty Eannelli  
Frank Draxler  
James Gilligan  
Duane Brown  
John Tramburg  
Edward Riley  
Neil Paulson  
Donald Rupert

#### **Loss Prevention Committee**

Wayne Wilson, Chair\*  
John Shepard\*  
Cathleen Lathrop  
Dale Villeneuve  
Fred Henschel  
Linda Ryan  
Jack Brown  
Richard Reese  
James Scholmeier\*  
Frederick Meifert  
William Downie  
William Seibold  
Alfred Schulz, Sr.

#### **Claims Review Committee**

Harold Reckelberg, Chair\*  
Wayne Hendrickson\*  
Jim Aiello  
Everett Carlson\*  
Gus Wirth  
Edward Dorner  
Donald Sommers

William Jens  
Edgar Pflug  
Clarence Natzke  
Jerry Kautzer  
Rich Nyklewicz, Jr.  
John Rath

\*Denotes directors serving as committee members.

Not all members serving on the committees are directors. It appears the members of the claims review committee have been delegated the authority to make decisions on behalf of the board of directors. Committees with this authority are considered board committees rather than advisory committees. Only board members may serve on board committees. The other committees appear to be advisory committees. Advisory committees do not have the authority to make decisions on behalf of the board. Further discussion regarding this matter can be found in the "Summary of current examination results" section of the report.

#### **IV. RELATED PARTIES**

##### **Wisconsin Counties Association**

Wisconsin Counties Association was created in 1935 by an act of the Wisconsin Legislature as a nonprofit association organized for the purpose of protecting and furthering the interests and concerns of county governments. WCA is a quasi-government entity created under s. 59.52 (22), Wis. Stat., and is tax exempt on both the federal and state level. All 72 Wisconsin counties are WCA members. WCA lobbies the legislature on matters of interest to Wisconsin Counties. In recent years, WCA expanded its operations to include providing services to its members. These services include educational programming, employee benefits, and liability insurance. WCA charges additional fees to counties that participate in the service programs.

As mentioned earlier in the report, WCA is the corporate manager of WCMIC.

##### **Aegis Corporation**

Aegis Corporation was formed in 1992 and has 28 employees. Aegis is the general administrator for WCMIC. Since the last exam, Aegis has acquired a license to be a Managing General Agent (MGA) for WCMIC.

## V. REINSURANCE

The company's reinsurance treaty in force at the time of the examination is summarized below. The contract contained the proper insolvency provisions.

1. Type: Excess of Loss
  
- Reinsurer: SCOR Reinsurance Company
  
- Scope: Business reinsured includes new and renewal business classified by the company as comprehensive automobile and general liability, including law enforcement liability, errors and omissions liability as respects officials, employees, or volunteers of local government units and medical malpractice liability for paramedics or similar units and staff nurses. Workers compensation business is covered for amounts in excess of \$250,000.
  
- Retention: \$250,000 per occurrence plus 5% of excess for counties  
\$100,000 cities, towns, villages  
\$1 million aggregate self-insured retention for Milwaukee County and Milwaukee County Architects Errors & Omissions
  
- Coverage: 95% of \$4,750,000 per loss per occurrence for counties, cities, towns, villages  
A new layer of \$150,000 in excess of \$100,000 for cities, towns, villages  
  
95% of \$5 million for Milwaukee County and Milwaukee County Architects Errors & Omissions
  
- Premium: \$2,100,442 for each annual period  
\$70,000 cities, towns, villages  
\$150,000, Milwaukee County  
\$110,000 Milwaukee County Architects Errors and Omissions
  
- Commissions: 20% of ceded premiums
  
- Effective date: January 1, 1997
  
- Termination: Any anniversary date by either party giving the other party 90 days' advance written notice.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 1998, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Surplus per Examination."

**Wisconsin County Mutual Insurance Corporation**  
**Assets**  
**As of December 31, 1998**

	<b>Ledger Assets</b>	<b>Nonledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Admitted Assets</b>
Bonds	\$28,217,409	\$	\$	\$28,217,409
Cash	1,292,795			1,292,795
Short-term investments	6,082,326			6,082,326
Reinsurance recoverables on loss and adjustment payments	56,585			56,585
Interest, dividends, and real estate income due and accrued		636,849		636,849
Other assets nonadmitted:	91,364		91,364	
Write-ins for other than invested assets				
Reinsurance ceded commissions recoverable	354,135			354,135
Deposit with reinsurer	<u>514,067</u>	<u>          </u>	<u>          </u>	<u>514,067</u>
Total Assets	<u>\$36,608,681</u>	<u>\$636,849</u>	<u>\$91,364</u>	<u>\$37,154,166</u>

**Wisconsin County Mutual Insurance Corporation**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 1998**

Losses	\$ 5,380,641
Loss adjustment expenses	7,079,619
Other expenses (excluding taxes, licenses, and fees)	78,954
Amounts withheld or retained by company for the account of others	6,583,372
Write-ins for liabilities:	
Advance premiums	<u>2,694,543</u>
 Total liabilities	 <u>21,817,129</u>
 Unassigned funds (surplus)	 <u>15,337,037</u>
Surplus as regards policyholders	<u>15,337,037</u>
 Total liabilities, surplus, and other funds	 <u>\$37,154,166</u>

**Wisconsin County Mutual Insurance Company**  
**Summary of Operations**  
**For the Year 1998**

**Underwriting Income**

Premiums earned	\$5,939,841
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**Deductions**

Losses incurred	1,030,949
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Loss expenses incurred	2,832,785
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Other underwriting expenses incurred	1,146,056
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Total underwriting deductions	<u>5,009,790</u>
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Net underwriting gain or loss	930,051
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**Investment Income**

Net investment income earned	1,714,656
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Net realized capital gains or losses	<u>174,934</u>
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Net investment gain or loss	1,889,590
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Net Income	<u>\$2,819,641</u>
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**Wisconsin County Mutual Insurance Company**  
**Cash Flow**  
**As of December 31, 1998**

Premiums collected net of reinsurance	\$5,961,037	
Loss and loss adjustment expenses paid (net of salvage or subrogation)	\$3,313,474	
Underwriting expenses paid	<u>1,234,650</u>	
Cash from underwriting	1,412,913	
Investment income (net of investment expense)	1,611,148	
Other income (expenses):		
Net amount withheld or retained for account of others	<u>1,660,253</u>	
Total other income	1,660,253	
Net cash from operations		\$ 4,684,314
Proceeds from investments sold, matured, or repaid:		
Bonds	21,624,157	
Net gains or (losses) on cash and short-term investments	<u>65,385</u>	
Total investment proceeds	21,689,542	
Cost of investments acquired (long-term only):		
Bonds	<u>25,318,474</u>	
Total investments acquired	25,318,474	
Net cash from investments		(3,628,931)
Cash provided from financing and miscellaneous sources:		
Other cash provided	<u>267,832</u>	
Total	267,832	
Cash applied for financing and miscellaneous uses:		
Other applications	<u>1,554,149</u>	
Total	1,544,149	
Net cash from financing and miscellaneous sources		<u>(1,276,317)</u>
Net change in cash and short-term investments		<u>(220,934)</u>
<b>Reconciliation</b>		
Cash and short-term investments, December 31, 1997		<u>7,596,056</u>
Cash and short-term investments, December 31, 1998		<u>\$7,375,122</u>

**Wisconsin County Mutual Insurance Corporation  
Compulsory and Security Surplus Calculation  
December 31, 1998**

Assets		\$37,154,166	
Less liabilities		<u>21,817,129</u>	
Adjusted surplus			\$15,337,037
All other insurance	\$5,939,841		
Factor	<u>20%</u>		
Total		<u>1,187,968</u>	
Compulsory surplus (subject to a minimum of \$2 million)			<u>2,000,000</u>
Compulsory surplus excess (or deficit)			<u>13,337,037</u>
Adjusted surplus			15,337,037
Security surplus:	140%		
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)			<u>2,800,000</u>
Security surplus excess (or deficit)			<u>\$12,537,037</u>

**Wisconsin County Mutual Insurance Corporation  
Reconciliation and Analysis of Surplus  
For the Five-Year Period Ending December 31, 1998**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1994	1995	1996	1997	1998
Surplus, beginning of year	\$8,045,406	\$ 10,718,396	\$ 11,843,969	\$ 13,654,015	\$ 14,032,064
Net income	2,578,408	1,870,446	3,164,827	1,878,050	2,819,641
Surplus changes:					
Paid-in	118,688	92,690			
Return of surplus to policyholders	(207,931)	(827,563)	(1,354,781)	(1,500,001)	(1,423,303)
Surplus, end of year	\$ 10,718,396	\$ 11,843,969	\$ 13,654,015	\$ 14,032,064	\$ 15,337,037

**Growth of Wisconsin County Mutual Insurance Corporation**

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1994	\$ 24,604,672	\$ 13,886,276	\$ 10,718,396	\$ 2,578,408
1995	27,867,303	16,023,334	11,843,969	1,870,446
1996	30,656,608	17,002,593	13,654,015	3,164,827
1997	33,659,470	19,627,406	14,032,064	1,878,050
1998	37,154,166	21,817,129	15,337,037	2,819,641

  

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1994	\$ 6,768,353	\$ 4,930,103	\$ 4,930,103	62.7%	3.0%	65.7%
1995	6,566,529	4,972,711	4,972,711	77.4%	8.7%	86.1%
1996	6,521,813	4,823,632	4,823,632	53.2%	8.6%	61.8%
1997	7,914,385	5,853,930	5,853,930	80.6%	16.0%	96.6%
1998	8,093,556	5,939,841	5,939,841	65.0%	19.3%	84.3%

Over the last five years, the company has experienced significant premium growth resulting in an increase in surplus for each year. In 1997, a large account joined WCMIC. This resulted in a substantial increase in claims frequency and related costs. Through its general administrator, the company has implemented programs to educate counties on loss prevention in order to aid in the control of losses.

The company's expense ratio is low, partly because commissions from reinsurance ceded, including contingent commissions, offset and reduce the direct underwriting expenses. In the event of adverse development of losses from earlier years, the company would repay the contingent commissions resulting in a higher net expense ratio.

### Reconciliation of Surplus per Examination

As a result of this examination, there were no adjustments made to surplus. Only one reclassification was added.

#### Examination Reclassifications

	<b>Debit</b>	<b>Credit</b>
Short-term investments		\$1,126,839
Cash and cash equivalents	<u>1,126,839</u>	<u>                    </u>
Total reclassifications	<u>\$1,126,839</u>	<u>\$1,126,839</u>

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were ten specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Conflict of Interest—It is recommended that the company adopt the procedure for completing conflicts of interest statements on an annual basis, and that a director who serves as an officer or director of WCA disclose this affiliation.

Action—Partial Compliance

2. Management and Control—It is recommended that the company takes measures to ensure that the proper insurance coverage is secured by the general administrator and that endorsements, whereby the policy cannot be canceled without 60 days' written notice, be included in these policies.

Action—Partial Compliance

3. Management and Control—It is recommended that the company maintain, at the company's office, certificates of the insurance required under the general administrative agreement and copies of the endorsements requiring 60 days' written notice to the company of any cancellation.

Action—Compliance

4. Management and Control—It is recommended that if the company carries out its operations using a managing general agent, then the MGA should be licensed pursuant to s. Ins. 42.02, Wis. Adm. Code, or cease doing business with the MGA.

Action—Compliance

5. Management and Control—It is recommended that the company amend its general administrative agreement with Aegis to include the language in compliance with the provisions of ch. 42, Wis. Adm. Code.

Action—Compliance

6. Management and Control—It is recommended that the company comply with s. 611.66, Wis. Stat.

Action—Compliance

7. Management and Control—It is recommended the board establish a procedure to review annually the contractual relationships it has with the servicing carriers to determine whether the arrangement should be renegotiated or performed in-house.

Action—Noncompliance.

8. Invested Assets—It is recommended that the company amend its custodial agreement so that it contains a proper indemnification clause that meets the requirements specified by the NAIC Examiners Handbook.

Action—Partial Compliance

9. Expenses—It is recommended that if the company follow the instructions contained in the Annual Statement Instructions-Property and Casualty NAIC, when completing the Underwriting and Investment Exhibit, Part 4 – Expenses.

Action—Compliance

10. Losses—It is recommended that if the company implement a procedure to ensure that the general administrator reconciles its loss payment records to those records of the claims administrator on a monthly basis to account for the differences which affect loss reserves.

Action—Compliance

## **Summary of Current Examination Results**

### **Management and Control**

A review of the board of directors' lists for WCMIC and WCA indicated that there were four directors serving on both boards, including WCMIC's President and Secretary-Treasurer. A review of the conflict of interest statements indicated that two directors did not disclose the fact that they also served on the board for WCA. Therefore, it is again recommended that the company directors who serve as directors and officers for Wisconsin County Association disclose the affiliation in the conflict of interest statements.

A review of the committee listings indicated that not all members serving on committees are directors. The claims review committee appears to be a board committee because the members appear to have decision-making authority on behalf of the board of directors. Members of a board committee must be directors. Therefore, it is recommended that only directors serve on board committees in accordance with s. 611.56 (1), Wis. Stat.

#### *Aegis Corporation*

The company contracts for all services with outside parties. Payment is based on a percentage of premiums. Premium volume has increased to the point where the board may wish to consider whether it would be in the best interests of its policyholders to negotiate a cost basis contract or perform the services in-house. It is again recommended that the board establish a procedure to annually review the contractual relationships it has with service carriers to determine whether the arrangement should be renegotiated or performed in-house.

The agreement between the company and Aegis Corporation states that the administrator shall maintain professional liability insurance for errors and omissions, general liability, fidelity, and Workers' Compensation. The agreement also states that each insurance policy shall contain an endorsement that it may not be cancelled without sixty days' written notice to WCMIC. The insurance policies reviewed provided the proper coverage, but did not contain the sixty-day notice requirement. It is recommended the company take measures to ensure that the insurance policies secured by the general administrator contain the agreed-upon sixty-day cancellation notice.

## **Cash and Cash Equivalents**

A review of the cash procedures and the outstanding check list indicated that the company does not have an unclaimed property fund. Pursuant to ch. 177, Wis. Stat., under the Unclaimed Property Act, abandoned property is described as all intangible property that is held, issued or owing in the ordinary course of business and has remained unclaimed by the owner for more than five years after it became payable or distributable. The property then becomes subject to the custody of the State of Wisconsin as unclaimed property. Intangible property under this act includes money, checks, drafts, deposits, interest, dividends, and income.

Before May 1 of each even-numbered year, the holder shall file an abandoned property report with the State of Wisconsin. The report should cover the two previous calendar years. Property with a value of \$50 or more should be reported as well as the last known address of the owner. Amounts under \$50 may be reported in the aggregate.

The company must conduct a review of its check disbursement system in order to effectively ascertain the status of each check. Property that has been recorded as outstanding for over five years should be deemed as abandoned. Therefore, in accordance with ch. 177, Wis. Stat., it is recommended that the company establish an outstanding check list and report abandoned property to the State of Wisconsin.

## **Investments**

The company has added the proper indemnification clauses to its custodial agreement regarding the loss of securities due to the negligence of the custodian. However, a review of the agreement revealed that a “prompt replacement of securities” clause was not added. It is recommended that the company amend its custodial agreement to include language regarding the prompt replacement of lost securities as stated in the NAIC Examiners Handbook.

## **VIII. CONCLUSION**

Since the last exam as of December 31, 1993, the company has experienced significant growth. Total assets have increased by \$12.5 million or 51%, liabilities increased \$7.9 million or 57%, and surplus increased \$4.6 million or 43%. WCMIC has no employees. The company contracts with outside vendors to provide standard services. The services include corporate management, general administration, claims administration, auditing, actuarial, investments, and banking. In December of 1999 the board of directors decided that a review of service providers was in order. Corporate management is in the process of gathering salary benchmark information for the board's review.

The duties performed by Aegis Corporation for WCMIC are consistent with that of a Managing General Agent (MGA). Aegis has acquired an MGA license in order to comply with State of Wisconsin regulations.

As a mutual insurance company, WCMIC's board of directors has a fiduciary duty to its members. This duty includes careful monitoring of the company's expenses. The company's net expense ratio has increased from 3.0% of \$4.9 million net written premiums in 1994, to 30.9% of net written premiums in 1999. Ordinarily, the expense ratio would be expected to decrease as premium volume increased. Accordingly, a recommendation has been made that the board of directors consider whether it would be appropriate to renegotiate the existing service contracts.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Conflict of Interest—It is again recommended that company directors who serve as directors and officers for Wisconsin County Association disclose the affiliation in the conflict of interest statements.
2. Management and Control—It is recommended that only directors serve on board committees in accordance with s. 611.56, Wis. Stat.
3. Management and Control—It is again recommended that the company comply with s. 611.66, Wis. Stat.
4. Management and Control—It is again recommended the board establish a procedure to annually review the contractual relationships it has with service carriers to determine whether these arrangements should be renegotiated or performed in-house.
5. Management and Control— It is recommended the company take measures to ensure that the insurance policies secured by the general administrator contain the proper sixty-day written cancellation notice.
6. Cash and Cash Equivalents—It is recommended that the company establish an outstanding check list and report abandoned property to the State of Wisconsin in accordance with ch. 177, Wis. Stat.
7. Investments—It is recommended that the company amend its custodial agreement to include language regarding the prompt replacement of lost securities as stated in the NAIC Examiners' Handbook.

## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Kristin Forsberg	Insurance Examiner

Respectfully submitted,

Theresa M. McClintock  
Examiner-in-Charge  
Bureau of Financial Analysis and Examinations